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ACTION SSO-00

INFO LOG-00 NP-00 AGRE-00 AID-00 ANHR-00 EAP-00 EB-00  
TEDE-00 SS-00 STR-00 TEST-00 TRSE-00 SAS-00 /000W  
-----E4A661 271124Z /38

FM AMEMBASSY HANOI  
TO SECSTATE WASHDC PRIORITY 2708  
DEPT OF TREASURY WASH DC PRIORITY  
NSC WASHDC  
USDOC WASHDC  
USDA WASHDC  
ASEAN COLLECTIVE  
AMCONSUL HO CHI MINH CITY

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SIPDIS

SENSITIVE

STATE FOR E, EB, EB/IFD/ODF, EB/IFD/OMA, EB/TPP, EAP/BCLTV  
STATE PASS USAID/ANE AFERRERA AND DMCCCLUSKEY  
STATE PASS USTR  
TREASURY FOR OASIA  
TREASURY PASS USED WORLD BANK AND USED IMF  
USDOC FOR 4431/MAC/IEP/OKSA/HPPHO  
USDA FOR FAS/ITP/SCHIKH/HUYNH  
PHNOM PENH FOR USAID LCHILES  
MANILA PASS USADB

E.O. 12958: N/A

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TAGS: [BAID](#) [EFIN](#) [ECON](#) [ETRD](#) [PREL](#) [VM](#) [FINREF](#) [SOE](#)  
SUBJECT: VIETNAM - U.S. VOTE ON WORLD BANK'S PRSC PROGRAM

REF: HANOI 686 AND PREVIOUS

11. (SBU) SUMMARY: EMBASSY URGES WASHINGTON AGENCIES TO SUPPORT THE WORLD BANK'S POVERTY REDUCTION SUPPORT CREDIT (PRSC) PROPOSAL TO BE PRESENTED TO THE BANK'S BOARD IN EARLY MAY. WE RECOGNIZE THAT THE PRSC, LIKE THE IMF'S POVERTY REDUCTION AND GROWTH FACILITY (PRGF) CONSIDERED BY THE IMF BOARD ON APRIL 6, IS NOT PERFECT. IN FACT, WE AGREE WITH A NUMBER OF THE OBSERVATIONS MADE BY THE U.S. EXECUTIVE DIRECTOR'S OFFICE WHEN IT ABSTAINED ON THE PRGF. (WE COMMENT ON SOME OF THESE OBSERVATIONS BELOW.) BUT WE THINK THE IMF/WB STRUCTURAL PROGRAM OPERATING IN TANDEM WITH THE TRADE OBLIGATIONS THE VIETNAMESE GOVERNMENT HAS ASSUMED UNDER THE ASEAN FREE TRADE AREA AGREEMENT AND WILL ASSUME WHEN THE U.S.-VIETNAM BILATERAL TRADE AGREEMENT ENTERS INTO FORCE PROVIDE THE BEST PROSPECT FOR PROMOTING MARKET-ORIENTATION AND INTERNATIONAL COMPETITIVENESS THAT THE VIETNAMESE ECONOMY HAS SEEN IN DECADES, IF EVER. WHILE UNTESTED, WE ARE ALSO HOPEFUL RECENT LEADERSHIP AND STRUCTURAL CHANGES IN VIETNAM'S POLITBURO WILL REINVIGORATE ECONOMIC REFORM MOMENTUM. END SUMMARY.

12. (SBU) WHILE ABSTAINING ON THE PRGF DUE TO GRAMM AMENDMENT CONSIDERATIONS (APPLICABLE ONLY TO IMF LENDING), THE U.S. EXECUTIVE DIRECTOR TO THE IMF RAISED A NUMBER OF VALID CONCERNS ABOUT THE PROPOSED FACILITY. SINCE BOTH STRUCTURAL PROGRAMS (PRGF AND PRSC) WERE DESIGNED TO WORK TOGETHER, WE ANTICIPATE WASHINGTON AGENCIES MAY RAISE

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SIMILAR ISSUES WHEN TAKING UP THE WORLD BANK'S CREDIT PROGRAM. WHEN THE IMF'S BOARD TOOK UP THE IMF'S FACILITY, THE U.S. EXECUTIVE DIRECTOR QUESTIONED THE VIETNAMESE GOVERNMENT'S ABILITY TO KEEP PUBLIC SECTOR DEBT UNDER CONTROL AND WHETHER FISCAL SUSTAINABILITY WOULD BE ADEQUATELY SAFEGUARDED THROUGH THE LIFE OF THE PROGRAM. THE U.S. EXECUTIVE DIRECTOR ALSO QUESTIONED THE FIGURES FOR THE STOCK OF NON-PERFORMING LOANS. IN ADDITION, SERIOUS RESERVATIONS WERE EXPRESSED ABOUT THE IMF'S APPROACH TO STATE-OWNED COMMERCIAL BANK REFORM; THE U.S. EXECUTIVE DIRECTOR WONDERED WHY THE PROGRAM DIDN'T FOCUS ON DISMANTLING STATE-OWNED COMMERCIAL BANKS, SO THAT THEY COULD BE REPLACED WITH PRIVATE COMMERCIAL BANKS, RATHER THAN REHABILITATION THROUGH IMF-FUNDED RESTRUCTURING. FINALLY, QUESTIONS WERE RAISED REGARDING MONITORING OF STATE-OWNED ENTERPRISES UNDER THE PROGRAM: IF STATE-OWNED COMMERCIAL LENDING TO STATE-OWNED ENTERPRISES WERE CUT OFF, HOW WOULD

PROGRAM MANAGERS ASSURE STATE-OWNED ENTERPRISES WEREN'T FINANCED `BACKDOOR' THROUGH THE GOVERNMENT'S BUDGET, A PARTICULARLY TROUBLING PROBLEM IN VIETNAM WHERE THE GOVERNMENT'S BUDGET PRESENTATION REMAINS OPAQUE.

13. (SBU) THESE ARE ALL EXCELLENT QUESTIONS AND, FRANKLY, IT IS DIFFICULT TO PROVIDE ADEQUATE REPLIES. WE COMMENT BELOW ON SOME OF THESE CONCERNS.

PUBLIC SECTOR DEBT - WE WERE SURPRISED WASHINGTON AGENCIES FOCUSED ON THE STOCK OF VIETNAM'S PUBLIC DEBT AT THE IMF BOARD MEETING WHICH CONSIDERED THE PRGF. THAT DEBT STANDS AT 63% OF GDP, A LARGE NUMBER BUT LESS THAN HALF OF WHERE MANY DEVELOPING COUNTRIES AND AT LEAST ONE DEVELOPED COUNTRY  
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(JAPAN) ARE TODAY. WE ALSO CONSIDER THE PROSPECTS FOR VIETNAM'S CONTINUED REAL GROWTH REMAIN FAVORABLE. A MAJOR REASON FOR THE GVN TO UNDERTAKE THE PRSC AND THE PRGF PROGRAMS IS TO ADDRESS THE STOCK OF STA